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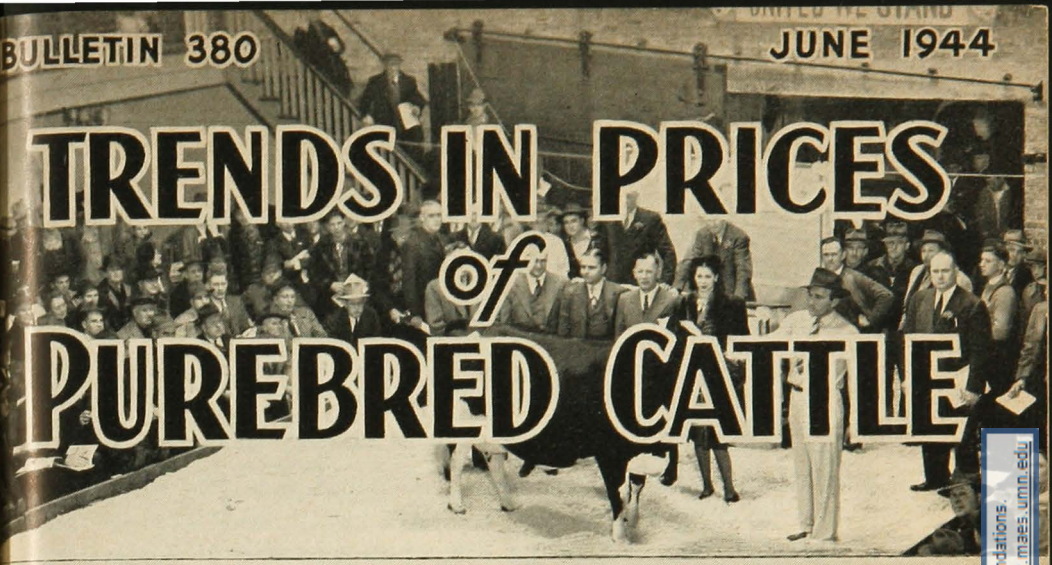
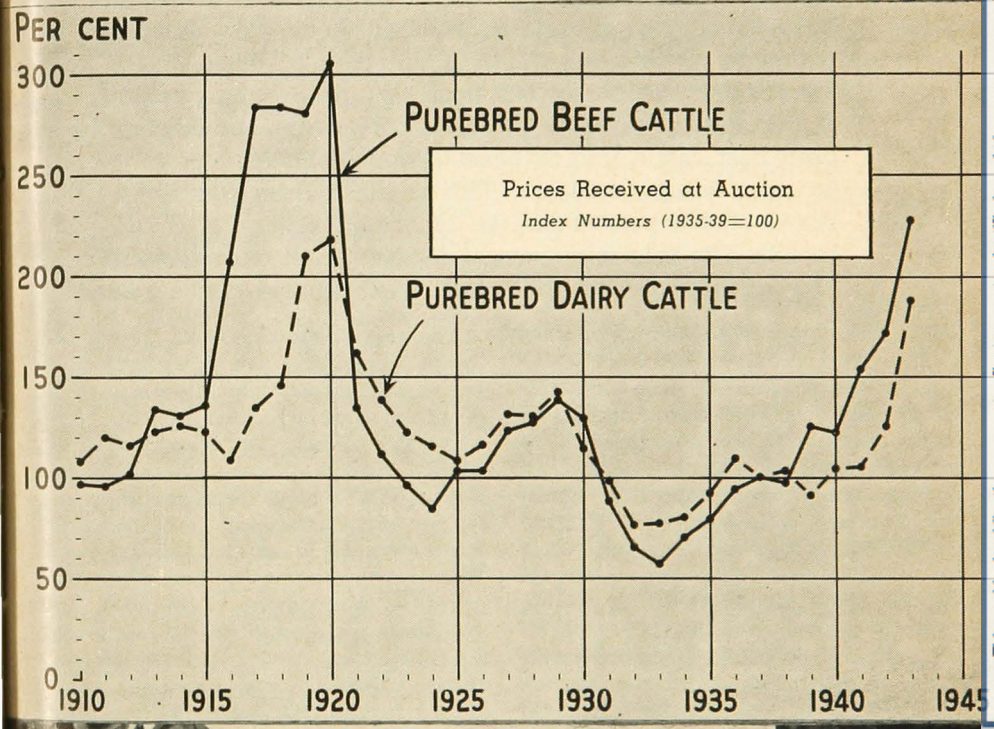
TRENDS IN PRICES of PUREBRED CATTLE





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Trends in Prices of Purebred Cattle

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PRICES paid for purebred beef and dairy cattle during recent months suggest that a boom is well under way. Within the past year, a yearling dairy bull was sold at auction for $26,000. A half interest in another dairy sire, described by one reporter as being "full of dignity and good genes," sold for $13,500. A herd of 209 head of purebred dairy cattle was dispersed at an average of $1,836 per head. A breeder of purebred beef cattle sold 50 head of males and females at auction for an average of $4,040. This is the highest average for the breed ever reported for the entire offering of a single firm. One bull in this sale brought $38,000 which also established a new all-time record for a bull of the breed sold at auction.

In another auction, one female brought $13,000. A bull of another beef breed sold for $40,000, which is a new all-time record for a beef bull of any breed sold at auction. Comparable prices have not been reported since the boom during and immediately following World War I, nearly a quarter of a century ago. Although these are extreme rather than typical cases, they are mentioned because they suggest what is taking place in the purebred cattle market.

Buyers of breeding stock are concerned with somewhat different factors than buyers of animals for fattening or milk production. As a result, animals bought for breeding purposes usually command higher prices than the general run of market cattle. The factors affecting values of breeding cattle cover a wider range than of market cattle; consequently, the variation in prices of the former is considerably greater.

The recent sharp rise in prices paid for purebred beef and dairy cattle has led to widespread interest in the trend of prices over a period of time. Just what have been the long-time price trends? How do present prices compare with prices during the previous boom? Do average prices of purebred beef and dairy cattle vary during the year? What is the relationship between prices of males and prices of females, and are these relationships the same for beef and dairy cattle? A study of price trends raises many questions as to causal factors. For example, are purebred beef and dairy cattle prices influenced largely by prices of the ultimate products of beef and dairy herds? Or are they influenced to a greater extent by the level of farm income or by other factors? What are the price prospects for the immediate future? These are some of the questions with which this study is concerned.

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Source and Limitations of Data

While substantial numbers of purebred beef and dairy cattle are sold each year, these transactions do not occur at regularly established markets. Sales are made privately and at public auction, at irregular intervals, and at widely scattered points throughout the country. In some respects, the situation surrounding the sale of purebred cattle is quite similar to that surrounding the sale of farm real estate; there are no regularly established markets and no recognized market quotations comparable to those for commercial livestock, grain, and produce.

In the absence of definite quotations, it was necessary to develop a time series of sale prices from various sources.[1] Records of transfers of animals sold for breeding purposes are maintained by the various breed associations. However, the consideration is not required on the transfer form filed with the breed association, so that price information is not available from this source. Prices paid in sales made privately are seldom published or reported except in the case of noted animals or unusual prices or both. In a few cases, the breed associations compile fairly complete records of sales made at public auction. More often this is done by the breed association journals. A sale advertised in a given breed association journal is commonly reported in some detail in a subsequent issue. Annual summaries of such sales frequently are published, together with comparisons with other years. Thus, from data obtained from breed associations and journals, it was possible to construct a series of weighted average annual prices obtained at public auction for males and females combined for two breeds of beef cattle and for four breeds of dairy cattle for the period 1910-43. Figures for males and females separately were not available for some breeds and were not complete for the entire period for others. Sale prices by quarters for the period 1939-43 were obtained for one beef breed and two dairy breeds. While the number of animals included in the reports of auction sales represents a relatively small proportion of all transactions, and while the average of prices received at the reporting auctions may vary more or less from the average of prices received for animals sold at private sales and at unreported auctions, either because of differences in age or actual or assumed productivity, it is believed that the prices obtained at the reporting auctions indicate fairly satisfactorily the trend of purebred cattle prices.

The number of purebred breeding animals sold at public auction increases during boom periods and decreases during low-price periods. For example, the total of males and females of the four breeds of dairy cattle sold in the reporting auctions declined to a low of 3,588 head in 1933 and then increased to 19,826 in 1942. Of the two beef breeds, the total declined to a low of 3,312 head in 1932 and then increased to 33,676 in 1943. The average quality probably varies inversely with the number sold, and if so, price fluctuations are slightly less than if numbers and quality remained constant.

Long-time Price Trends

Index numbers of prices received at auction for purebred beef cattle and for purebred dairy cattle for the period 1910-43 (1935-39=100) are shown in the graph on the cover. The general price trend appears to be much the

[1] Sale prices of purebred beef cattle, dairy cattle, sheep, and hogs were compiled from various sources by the U. S. Department of Agriculture for the period 1922 to 1930. However, the methods used in obtaining, tabulating, and reporting the data were such that they could not be used in connection with this study. See Crops and Markets 1924, 1925, 1927, 1929, and 1931; and U. S. Department of Agriculture Statistical Bulletin 20.

same for both classes of cattle. A pronounced boom occurred during and immediately following World War I. This was followed by a decline which returned prices to about prewar levels by 1923. Prices strengthened during the next few years, but another decline which began late in 1929 carried prices far below the prewar level by 1932. Prices advanced considerably from 1933 to 1936, fluctuated within fairly narrow limits from 1936 through 1940, and thereafter moved upward at a rapid rate. The advance of the last two or three years suggests that the experiences of the preceding boom and subsequent depression may be repeated.

While the general trends of prices of purebred beef and dairy cattle appear to be much the same, some significant differences will be observed. First, purebred beef cattle prices have been subject to much greater fluctuations than purebred dairy cattle prices, rising much higher during the World War I boom, and falling farther during the subsequent depression. Purebred beef cattle prices also fell farther in the depression of the early 1930's, and advanced more sharply during the recent upswing. Second, at the beginning of a major upswing in prices, there appears to be some tendency for purebred beef cattle prices to rise one year in advance of purebred dairy cattle prices. The rise in purebred beef cattle prices preceded the rise in purebred dairy cattle prices in 1916, 1925, and 1941, but lagged behind in 1933. But major price declines occurred simultaneously, the rate of decline varying.

Price Trends during Two Wars

Purebred beef cattle prices remained fairly constant during the first two years of World War I and World War II and then advanced sharply (figure 1). Thus far in World War II

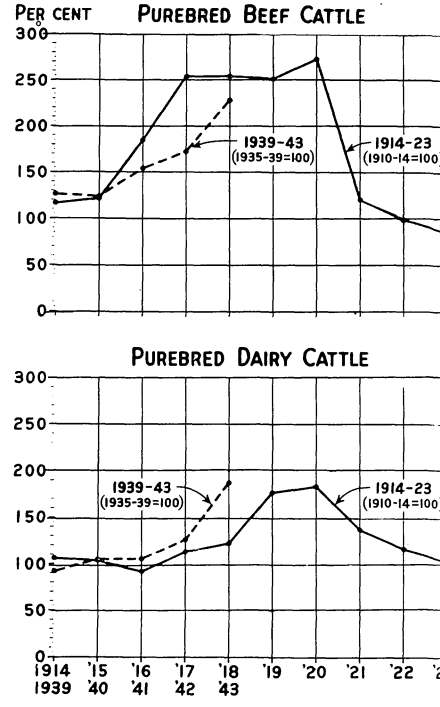

FIG. 1. Prices received for purebred beef and dairy cattle sold at auction Index numbers, 1914-23 and 1939-43

the increase has been slightly less than for the same period in World War I, but the rate of increase during 1943 compared with relatively little change during the corresponding year in World War I suggests that the current rise may not have run its course.

Prices of purebred dairy cattle remained fairly constant during the first three years of each war and then moved upward at a fairly rapid rate. The increase during the present war has been greater than during the corresponding period of World War I. However, both the rate and extent of the increase were much less for purebred dairy cattle than for purebred beef cattle during the World War I boom, and the same has been true thus far in this war.

Price Differences within the Year

Great care must be exercised in interpreting within-the-year differences in average auction sale prices of purebred beef and dairy cattle. For example, during the strong upward trend of prices from 1939 to 1943, there was a fairly distinct and consistent within-the-year price variation for the one beef and two dairy breeds studied, but no uniformity in the pattern between breeds (figure 2). In the beef breed, highest average prices were obtained each year during the first quarter and lowest prices during the third quarter. In four out of five years, highest average prices for one dairy breed were obtained during the fourth quarter and lowest prices during the first quarter. Highest prices for the other dairy breed were obtained in four out of the five years during the second quarter, with lowest prices during the first quarter.

When numbers of animals sold per quarter were related to average prices received, it was found that lowest average prices for the beef breed and for one of the dairy breeds were obtained when the smallest numbers were sold. Lowest prices for the other dairy breed were obtained during the quarter when numbers sold ranked next to the lowest.

Only in the beef breed were numbers and prices of males and females tabulated separately by quarters. The number of males usually was highest in the first quarter, with prices highest during the fourth quarter, while the number of females sold was highest during the fourth quarter and prices highest during the first quarter. In other words, the within-the-year price pattern for the males of this breed was fairly consistent from year to year, but it differed considerably from the pattern for the females which also was quite consistent.

It appears that differences in seasonal demands for males and females of a given breed contributed somewhat to the variation in prices during the year. It is also probable that a larger proportion of animals of greater actual or assumed quality are commonly sold at auction during some months than during other months, and that this varies from breed to breed. For example, a given consignment sale is usually held at approximately the same time each year. Likewise, an individual breeder, who sells his sur-

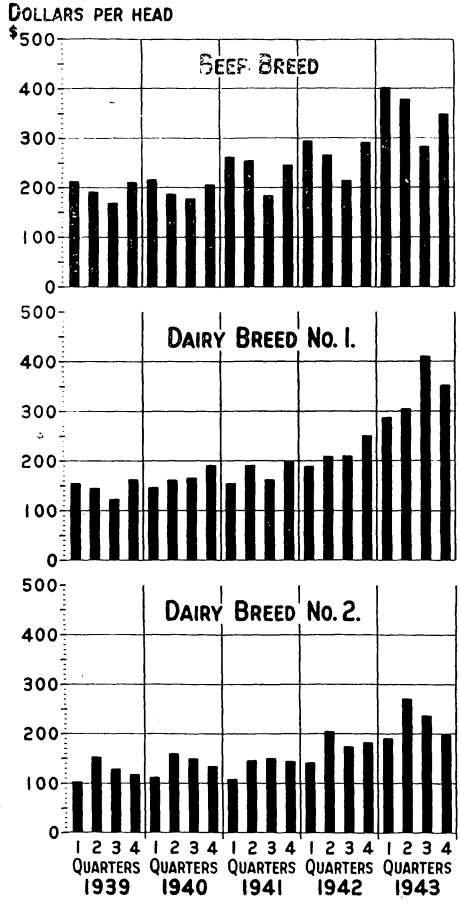

FIG. 2. Average prices received for purebred beef and dairy cattle sold at auction, by quarters 1939-43
Data based on sale prices of males and females combined for each breed

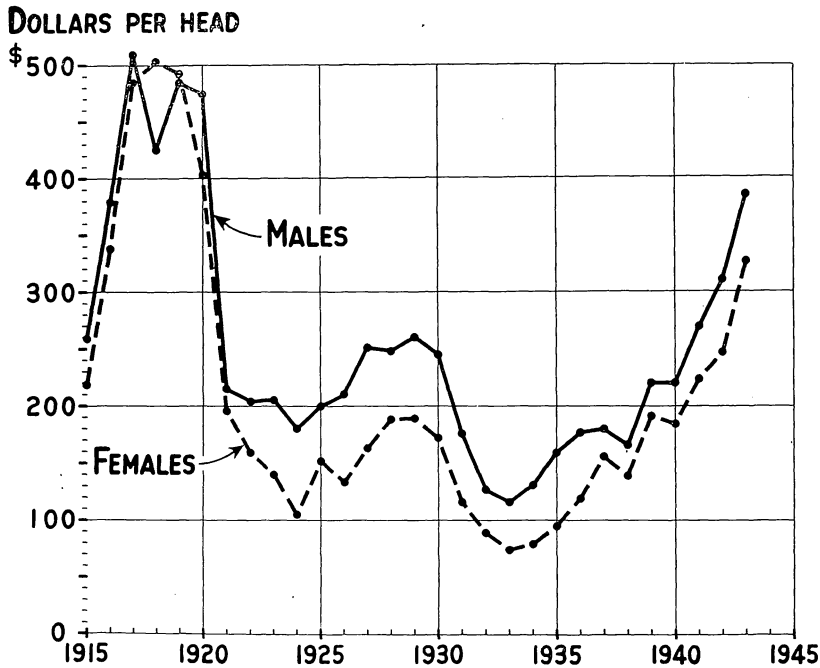

FIG. 3. Average prices received for purebred beef males and females sold at auction, 1915-43
Data based on sale prices of one beef breed only

plus animals at auction, commonly sells at about the same time each year. When leading consignment and individual breeder auction sales are concentrated in certain periods of the year, prices naturally average higher than for other months. And this appears to be common, at least among some breeds. Variations in age also may be a contributing factor. To the extent that price variations within-the-year are due to quality or age, they should not be interpreted as representing seasonal price trends.

Additional research will be required to determine the nature of, and the specific factor or factors responsible for, the within-the-year variations in average prices at auction of each breed of purebred beef and dairy cattle. Such a study should cover a sufficient length of time to ascertain whether the price pattern associated with a rising market differs from that of a constant or declining market. The significance of such a study is readily apparent. Without this information, there is very real danger that a short-time within-the-year change in trend may be erroneously interpreted as the beginning of a major long-time change.

Prices of Males and Females

Prices of beef males were considerably higher than for females each year except at the peak of the World War I boom (figure 3). On the other hand, average prices of males of the dairy breeds were higher than for females only during the moderately high price period from 1926 to 1929 and again in 1943 (figure 4). From 1932 to 1942,

prices of dairy females were slightly higher than prices of males. The data are based upon prices received at auction for males and females separately for one beef breed for the period 1915 to 1943, and for three dairy breeds for the period 1926 to 1943.

A number of tentative conclusions are suggested by these rather limited data. First, prices of purebred beef males and females tend to rise and fall together, although not at the same rate. Likewise, prices of purebred dairy males and females tend to rise and fall together. There is no evidence of a lag or divergence in direction of the price trends of beef males and females or of dairy males and females. Second, there appears to be a tendency for prices of purebred beef females to rise higher relatively during a major boom than prices of males. This may be due to competition for females by those who decide, for one reason or another, to enter the breeding fraternity or to expand operations at or near the peak of the boom. As an average over a period of time, the number of beef females sold at auction does not differ greatly from the number of males sold. However, the number of females varies more from year to year, rising slightly higher during high-price periods and falling farther during low prices. Third, prices of dairy males appear to rise higher relatively during high-price periods than prices of dairy females, which is just the opposite of the situation for beef cattle. This may be due to the fact that the ratio of males to females sold at auction is less during high-price periods than during low-price periods. About 17 per cent as many males as females were sold at the reporting auctions in 1932 and 1933, when relatively few of either sex were sold, compared with less than 13 per cent in 1942 and 1943 when the absolute number of each sex increased

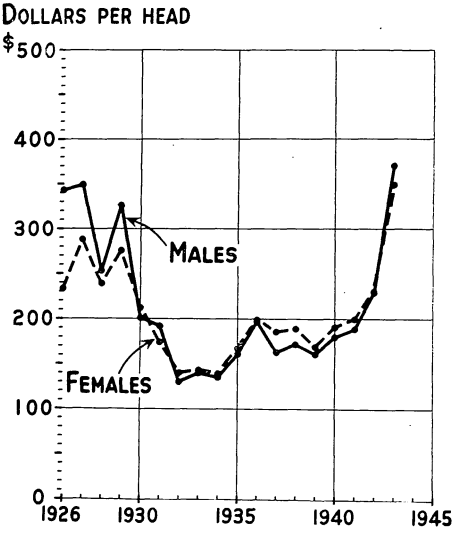

FIG. 4. Average prices received for purebred dairy males and females sold at auction, 1926-43
Data based on sales of three dairy breeds

sharply. It is also probable that the sire receives more attention relatively in beef herds than the dam, while the milk records of dairy cows tend to focus attention on the dams because of the value of such records in selling offspring. The relatively small proportion of males in purebred dairy cattle auctions compared with about equal numbers of males and females in purebred beef cattle auctions suggests that a higher proportion of dairy bulls is sold privately than is the case with beef bulls. Many dairy farmers buy young immature bull calves privately and grow them out for use as sires, while most breeders of beef cattle buy bulls of serviceable age. Although artificial insemination of cows in commercial dairy herds has expanded rapidly during recent years and may expand further, it has not yet reached a point where it has greatly affected the total number of bulls required.[2] The extent

[2] A. A. Dowell and L. M. Winters, Economic Aspects of Artificial Insemination of Commercial Dairy Cows, Journal of Farm Economics, Vol. XXIV, No. 3, August, 1942, pp. 665-76.

to which prices of beef or dairy males and females were influenced by differences in age or actual or assumed quality during high- and low-price periods could not be determined from the data.

Factors Affecting Purebred Dairy Cattle Prices

Prices of purebred dairy cattle and of 92-score butter at New York (1935-39=100) are shown for the period 1910-43 in figure 5. The index of purebred dairy cattle prices followed quite closely the index of butter prices from 1916 to 1922, but from 1923 to 1928 the index of butter prices remained much above that of purebred dairy cattle. From 1929 to 1942, the trends were quite similar except that butter prices fluctuated somewhat more violently. But purebred dairy cattle prices advanced much more sharply in 1943 than butter prices including the butter subsidy. The failure of purebred dairy cattle prices to follow butter prices more closely from 1923 to 1928 probably was due to a temporary dampening of enthusiasm for purebred animals following the boom and subsequent crash, while the divergence in 1943 probably was due to increased enthusiasm for purebred animals as a result of wartime farm prosperity. The data for the entire period from 1910 to 1943 suggest that the relationship between prices of purebred dairy cattle and of butter is not one of dependency—that both are affected by the same conditions.

Prices of purebred dairy cattle were even less closely associated with prices received by farmers of the United States for farm milk cows (figure 6) than with prices received for butter. The index of prices of purebred dairy cattle advanced much higher during the World War I boom, but fluctuated less violently from 1926 to 1935 than the index of prices of farm milk cows. However, the index of prices received

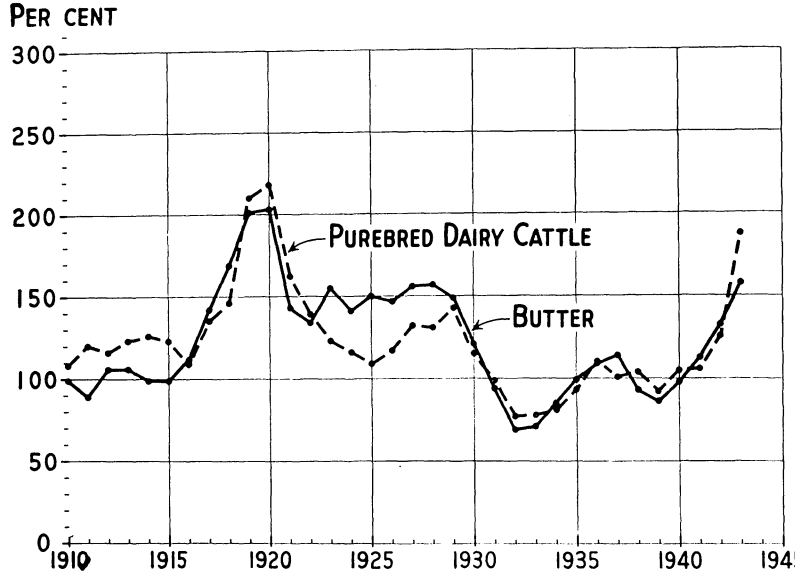

FIG. 5. Prices received for purebred dairy cattle sold at auction and wholesale prices of 92 score butter at New York, 1910-43
Index numbers (1935-39 = 100)

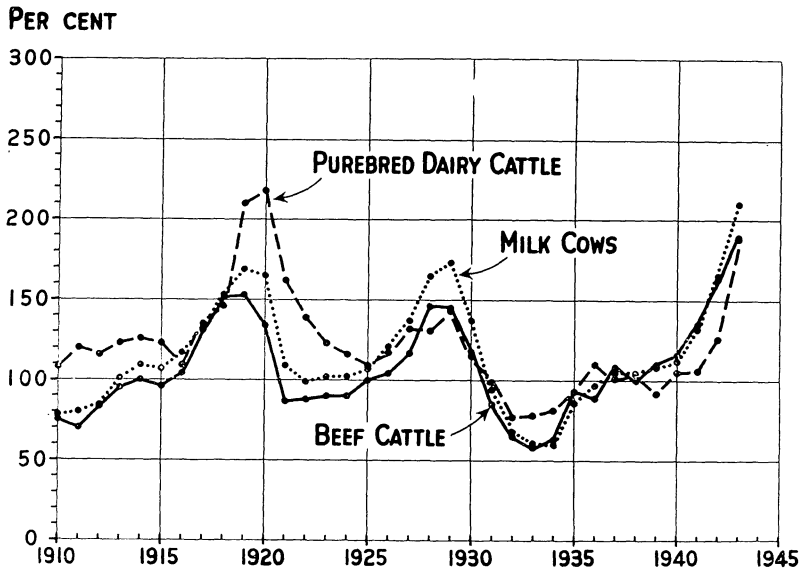

FIG. 6. Prices received for purebred dairy cattle sold at auction and United States farm prices of commercial milk cows and beef cattle, 1910-43
Index numbers (1935-39 = 100)

by farmers for farm milk cows was closely associated with the index of prices received by farmers for beef cattle per 100 pounds. These relationships suggest that farm-milk-cow prices are determined largely by the slaughter value of the cows, while purebred dairy cattle prices are determined largely by factors other than prices of farm milk cows or of beef cattle. The cyclical tendency of farm-milk-cow prices is due to the fact that farm-milk-cow prices are tied to beef cattle prices.

For the period 1916-42, purebred dairy cattle prices followed wholesale prices of all commodities somewhat more closely than prices of butter or of farm milk cows (figure 7). The index of purebred dairy cattle prices was higher than the all-commodity wholesale price index (1935-39=100) at the peak of the previous boom, fell less rapidly but slightly farther in the postwar slump, and advanced somewhat higher from 1927 to 1929; otherwise, the two price trends varied but little during this period. On the other hand, purebred dairy cattle prices were somewhat higher than wholesale prices of all commodities from 1911 to 1915 and much higher in 1943. The divergence in the period 1911-15 was due largely to the fact that purebred dairy cattle prices as well as prices of many other agricultural products were higher relative to many important industrial items included in the all-commodity wholesale price index during this period than during most of the 1920's and 1930's. The 1943 divergence may be explained by price controls which prevented a sharp rise in the all-commodity wholesale price index, while purebred dairy cattle prices were not controlled.

The movements of sale prices of purebred dairy cattle and of farm real estate were quite similar from 1912 to 1920 and from 1933 to 1942 (figure 7). But the index of sale prices of farm real estate (1935-39=100) was considerably higher than the index for purebred dairy cattle from 1921 to 1932, except

from 1927 to 1929, and considerably lower in 1943. Sale prices of farm real estate as well as sale prices of purebred cattle were high compared with many nonfarm items prior to the World War I boom. The purebred cattle boom was liquidated rather promptly, prices reaching approximately the prewar level in 1923, or three years after the peak of the boom in 1920. On the other hand, it required more than a decade to liquidate the land boom. Average sale prices of farm real estate did not fall to the prewar level until 1932, and in some areas the low point was not reached for several years thereafter. The divergence in 1943 was not as great as indicated in figure 7, for the reason that the purebred dairy cattle index was based upon weighted average sale prices for the full year, while the farm real estate sale price index was based upon prices as reported by the Bureau of Agricultural Economics as of March 1, 1943. Land values advanced 1 per cent or more per month during 1943 so that the index for the full calendar year would have been somewhat higher than shown in the figure. However, even after allowance is made for this discrepancy, it is apparent that purebred dairy cattle prices advanced much more sharply in 1943 than land prices.

In some respects, a purebred cattle boom is not so serious as a land boom. Boom prices for a few animals usually involve a smaller total investment than a boom price for a farm. A cattle boom is liquidated much more promptly than a land boom. However, both are undesirable, and when one is superimposed upon the other, the results are bound to be disastrous to many. Large numbers of farmers, particularly those near or beyond middle age at the time, were unable to recover from the World War I boom and subsequent crash.

Several significant relationships will be observed between prices of purebred dairy cattle and the net income of farm operators in the United States (figure 8). First, the net income of farm

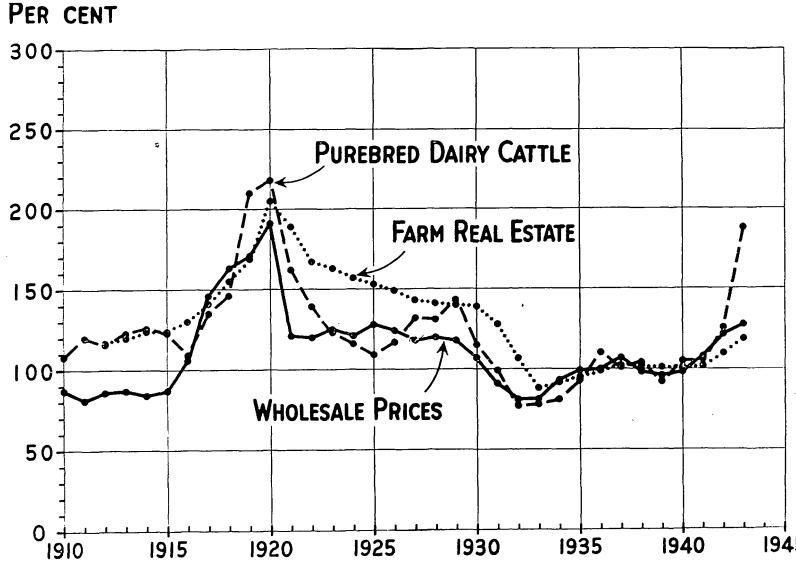

FIG. 7. Prices received for purebred dairy cattle sold at auction, wholesale prices of all commodities, and sale prices of farm real estate, 1910-43
Index numbers (1935-39 = 100)

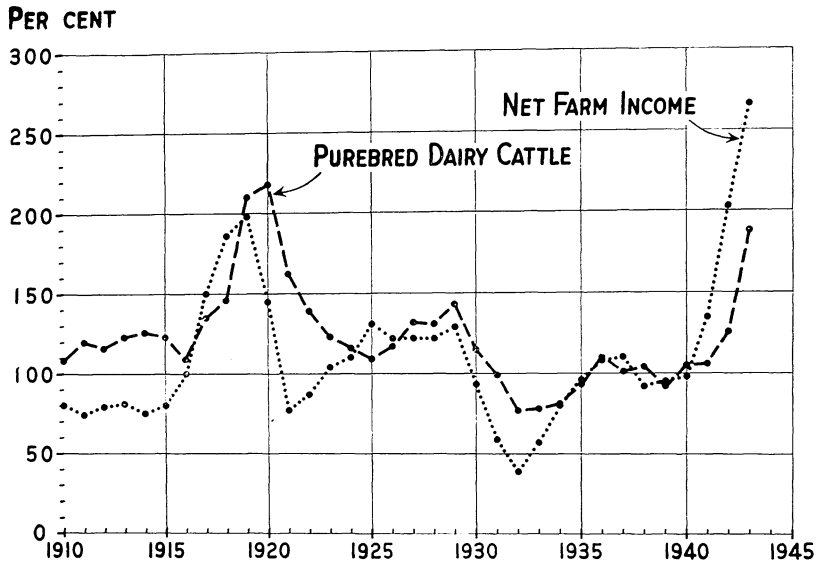

FIG. 8. Prices received for purebred dairy cattle sold at auction and net income of farm operators in the United States, 1910-43
Index numbers (1935-39 = 100)

operators fluctuated more violently than prices of purebred dairy cattle. The index of net income of farm operators (1935-39=100) advanced relatively more than the index of purebred dairy cattle prices during the World War I boom, fell more quickly and farther in the crash which followed, increased relatively more in the 1920's, fell farther in the early 1930's, and advanced much more sharply in 1942 and again in 1943. Second, the net income of farm operators has gained relative to prices of purebred dairy cattle since 1910-14. It was previously stated that purebred dairy cattle prices appeared to be relatively higher than wholesale prices of all commodities prior to World War I (figure 7). It now appears that prices of purebred dairy cattle at that time also were high relative to prices of other important farm products as reflected in the net income of farm operators. Third, there appears to be a tendency for changes in the trend of purebred dairy cattle prices to lag behind changes in the trend of net income of farm operators. For example, upturns in net income of farm operators in 1916 and 1941 preceded upturns in purebred dairy cattle prices by one year, and in 1933 by two years, while the upturn in 1922 was four years in advance of the upturn in purebred dairy cattle prices. The sharp downturn in 1920 and the modest decline in 1938 each preceded by one year a corresponding change in purebred dairy cattle prices, but in 1930 both declined together although not at the same rate.

Factors Affecting Purebred Beef Cattle Prices

Prices of purebred beef cattle and prices of beef steers at Chicago behaved quite similarly from 1923 to 1938, but varied considerably prior to, during, and immediately following World War I and again thus far in World War II

(figure 9). The divergence was especially marked from 1916 to 1920 and in 1943. Just as purebred dairy cattle prices were relatively high compared with prices of butter and of farm milk cows from 1910 to 1914, so were purebred beef cattle prices relatively high compared with prices of beef steers during that period. However, at the peak of the World War I boom, purebred beef cattle prices were much higher relative to the price of the commercial product than was the case with purebred dairy cattle. A similar situation developed in 1943. In other words, purebred beef cattle prices appear to be more closely tied to slaughter cattle prices during normal- and low-price periods than are purebred dairy cattle prices tied to butter prices or to prices received by farmers for farm milk cows, but they are much less closely associated during boom periods. Buyers of purebred beef cattle apparently pay close attention to prices of slaughter cattle during normal- or low-price periods, but pay little attention during a boom. In short, speculative activities enter the picture in boom times.

Purebred beef cattle prices were fairly closely associated with the net income of farm operators (figure 10) from 1923 to 1938, although the relationship was not quite as close during part of this period as that of prices of purebred beef cattle and of beef steers at Chicago (figure 9). But the relationships were quite different during the two boom periods. During the earlier boom, even though purebred beef cattle prices rose much higher than the net income of farm operators, the divergence was much less than between purebred beef cattle prices and prices of beef steers at Chicago. On the other hand, in 1942 and 1943, the net income of farm operators was much higher and the prices of beef steers at Chicago much lower than purebred beef cattle prices.

The upturn in net farm income preceded the upturn in purebred beef cat-

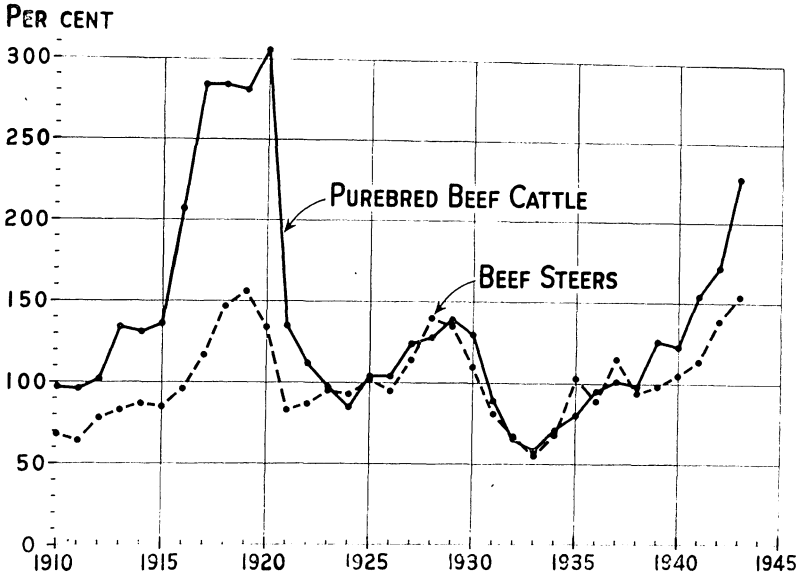

FIG. 9. Prices received for purebred beef cattle sold at auction and prices of beef steers at Chicago, 1910-43
Index numbers (1935-39 = 100)

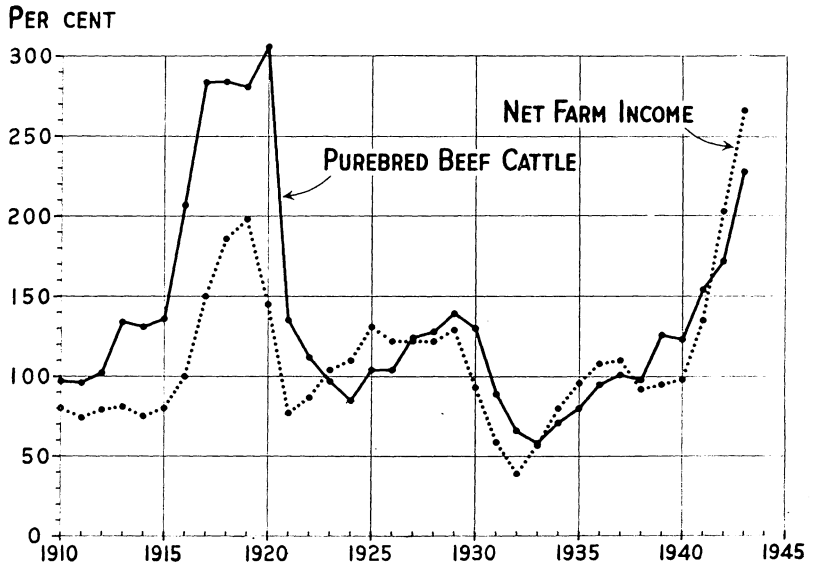

FIG. 10. Prices received for purebred beef cattle sold at auction and net income of farm operators in the United States, 1910-43
Index numbers (1935-39 = 100)

tle prices by three years in 1922 and by one year in 1933, while both moved up together in 1916 and in 1941. The decline in net farm income in 1920 preceded the decline in prices of purebred beef cattle by one year, but in 1930 both declined together. These relationships suggest that net farm income exerts strong pressure on purebred cattle prices, pulling purebred cattle prices upward as net farm income rises, and forcing purebred cattle prices downward as net farm income declines.

Other Factors Affecting Purebred Cattle Prices

A number of other factors also should be taken into account in evaluating present and future trends of purebred beef and dairy cattle prices. Some of these tend to limit the boom while others contribute to it. Among those which tend to limit the boom are: (1) price ceilings on dairy products, slaughter cattle, and beef; (2) price ceilings on other agricultural products (except feed) and on nonagricultural products; (3) income tax payments; (4) purchase of government bonds by individuals; (5) prospects of somewhat reduced feed supplies; (6) farm-labor shortage; and (7) memory of the preceding boom and subsequent crash.

It is too early to conclude that existing price ceilings can or will be maintained in the months that lie ahead. From the data presented in this study, it is apparent that prices, including various subsidies, were higher in 1943 than in 1942 for 92-score butter at wholesale in New York, beef cattle per 100 pounds at the farm, all commodities combined at the wholesale level, and beef steers per 100 pounds at Chicago. Higher prices for these and other agricultural products together with extremely favorable crop yields were responsible for the net income of farm operators being higher in 1943 than the previous all-time peak in 1942. Income

taxes have been raised sharply during recent years, and probably have approached a peak at least for the present. Country bank deposits and farm-mortgage debt payments indicate clearly that the amounts drawn off in the form of taxes and in the purchase of government bonds have not been sufficient to mop up the available farm income. Prospects of reduced feed supplies due to shrinking carry-overs may have some effect on the competition for purebred animals, but this is not likely to be a major factor so long as crop yields remain fairly high. Actual and prospective farm labor shortages also will tend to dampen somewhat the enthusiasm for purebred cattle. But this will have less effect on the demand for purebred beef cattle than for purebred dairy cattle, because beef cattle require relatively less labor. Some people may be affected by what happened during and following the World War I boom, but the memory of that unfortunate experience has grown dimmer with each passing year.

Other factors which tend to contribute to the purebred cattle boom include (1) the absence of direct restrictions on either the transfer or price of purebred livestock, and (2) the purchase of breeding stock by individuals with large nonfarm incomes.

Direct restrictions on the transfer of purebred livestock are not in prospect. Nor is it probable that price ceilings will be placed on breeding animals. Rather, it appears that the privilege of buying and selling will remain open to farm operators and outside investors alike and that they will be free to buy and sell at whatever prices they may agree upon, either at private sale or at public auction.

The maintenance of livestock breeding establishments by outside investors is not new.[2] Down through the years some urban residents have invested surplus funds in farm real estate, purebred livestock, and other forms of farm capital. By and large, such investments have been made primarily to satisfy a longing for the land and for good livestock, rather than for pecuniary gain. Under existing federal income tax laws and regulations, those with large incomes are encouraged to make such investments. Prices paid for any of these items are of relatively much less concern to those with large, than those with small, incomes because they are able to recover a higher proportion of major capital losses and depreciation through income tax deductions.[3] They are also encouraged to make more or less wasteful operating expenditures because of the relatively small equities they have in their taxable incomes. This serves to explain in part at least the increased interest in purebred livestock by outside investors during the past few years. Although high-income receivers may limit their selections largely to animals that stand in highest repute, the end result is keener competition and higher prices all along the line.

Prospects for the Immediate Future

In appraising probable developments in the immediate future, it is necessary to balance the combined effect of factors which tend to check the boom against the combined effect of those which contribute to it. On the one hand, during the previous boom, purebred dairy cattle prices advanced relatively about the same as the wholesale price of 92-score butter at New York, the wholesale price of all commodities, and sale prices of farm real estate; while thus far in World War II, pure-

[3] A. A. Dowell and G. E. Toben, Some Economic Effects of Graduated Income Tax Rates on Investors in Farm Capital, Journal of Farm Economics **26**(2): 348-58, 1944. Also A. A. Dowell and G. E. Toben, Income Tax Rates and Farm Investments, Minnesota Farm Business Notes No. 253, January, 1944.

bred dairy cattle prices have increased much more than wholesale prices of all commodities and somewhat more than sale prices of farm real estate and the wholesale price plus the subsidy of 92-score butter at New York. On the other hand, compared with the previous boom, purebred dairy cattle prices had advanced relatively much less by 1943 than the net income of farm operators and prices received by farmers for farm milk cows and for beef cattle. By and large, factors which tend to contribute to the purebred dairy cattle boom appear to outweigh those which tend to check it. Furthermore, in no instance during the period covered by the study did prices of purebred dairy cattle decline appreciably so long as net farm income was rising or remained relatively high.

The fact that purebred beef cattle prices advanced to a much higher level than beef steer prices in 1943, together with the fact that price ceilings are in effect on slaughter cattle, may at first suggest the likelihood that the purebred beef cattle boom may have reached or approached its peak. Furthermore, the number of cattle on farms in the United States reached an all-time high on January 1, 1944. This will lead to an increase in future supplies of slaughter animals with a tendency towards lower prices, thus, indirectly affecting the demand for purebred beef cattle. On the other hand, purebred beef cattle prices advanced much higher relative to beef steer prices during World War I than in 1943. Furthermore, purebred beef cattle prices advanced less than the net income of farm operators in 1942 and 1943, while the reverse was true during the previous boom. Thus, it is probable that purebred beef cattle prices will continue to rise or to remain at a high level until a major downturn in the net income of farm operators sets in.

The fact that prices may go higher in the present upswing does not mean that buyers need have no concern over the prices they pay. The returns from breeding stock normally are distributed over a period of time. The possibility of a lessened demand for farm products and a lower farm income some time after the war ends needs to be kept in mind in this connection.

Suggestions

The purebred cattle boom now under way is a reflection of high farm and nonfarm incomes arising out of the war. Consequently, the first move in the battle against the boom involves the effective control of wages, prices, and profits, including farm prices and profits. However, even if wages, prices, and profits are stabilized at existing levels, a serious purebred cattle boom is likely to occur, if wartime incomes continue over a period of time, unless excess purchasing power is used to finance the war, either in the form of taxes or purchase of government bonds by individuals, or both.

Farmers should keep both their short- and long-term debts within reasonable limits. Short-term debts, including purebred cattle notes, were especially troublesome following the World War I boom. The demand for funds to pay short-term obligations was in large part responsible for the fact that the total farm-mortgage debt of the country continued upward until 1923, or three years after the crash in 1920. Individuals were obliged to shift their short-term debts into long-term mortgage commitments.

Indications are that thus far in World War II the purchases of purebred cattle have been largely for cash. As long as surplus funds rather than borrowed capital are used for this purpose, some of the disastrous effects of the preceding boom will be avoided. However, if the boom continues over a period of time, there is very real danger that an increasing proportion of purebred cattle

transactions will be financed with promissory notes rather than surplus cash.

The possible advantages to agriculture and to the public generally of investments in purebred livestock by those with large incomes should be balanced against the disadvantages. On the one hand, in a few notable instances, large-income receivers have brought about considerable improvement in the quality of livestock. A few have made the services of superior sires available at moderate cost to farmers in their respective communities. On the other hand, such investments tend to contribute to the purebred cattle boom, and to reduce the flow of funds into the federal treasury.

If it is decided that the general welfare will be best served by discouraging investments in purebred livestock by those with large incomes and by discouraging speculation in purebred animals by farmers and others, attention will need to be centered upon methods of reaching these objectives. The enthusiasm of large-income receivers would be dampened considerably if deductions for capital losses and for depreciation from farm and nonfarm income before computing the tax were restricted. If these items were deductible only from the current income from the farm, those with large incomes would be placed more nearly on the same level as owner-operators whose incomes are derived entirely from their farm operations. Elimination of the regulation whereby a considerable proportion of the capital gain is exempt from tax if the animals are owned more than six months would contribute to this end also. All capital gains would then be subject to the graduated income tax, and this would account for a considerable part of the total in the case of those with large incomes. These modifications of existing tax regulations would not prevent speculators with relatively small incomes from making substantial profits from buying and selling purebred livestock as long as prices continue to rise at a fairly rapid rate. To discourage such individuals from speculating in purebred livestock and hence contributing to the boom, it may be desirable to adopt a stiff capital-gains tax during the emergency.

Farmers and others with moderate incomes should keep constantly in mind the fact that a purebred beef or dairy animal is worth what it will earn over its productive life, together with its slaughter value at time of disposal. Its true value is likely to differ greatly from its sale price either during a boom or during a depression. For example, the sale price of an animal during a boom may not be far out of line with the then existing prices of products to which it is related, but such a price may appear to be badly out of line when the boom ends and prices of products become adjusted to more normal conditions. Furthermore, as they listen to the chant of the auctioneer, they should realize that the real cost of a high-priced purebred animal under existing income tax rates and regulations will be much less for those with large, than for those with small, incomes.

Past experience suggests that those who are already engaged in the breeding of purebred livestock will do well to avoid the temptation to expand operations during the boom or to buy or sell on credit. Farmers and others with modest incomes who look forward to joining the ranks of the purebred-cattle-breeding fraternity probably will find it to their advantage to husband surplus cash during the boom and await a more favorable time to embark upon such a career. In short, it would be much better for the industry generally if the violent price fluctuations which have characterized the past could be reduced by dampening down the enthusiasm of boom periods and stimulating interest during periods of depression.